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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

REPORT [redacted]

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COUNTRY Czechoslovakia

SUBJECT Government Discussion of Possibility of Currency Reform

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1. At a special session on 18 November 1951, the Czechoslovak Government took note of the report [redacted] concerning the possible effects of an eventual Czech currency reform on the international markets. The report recommended halving the foreign rate for Czech currency in view of the drop in the official Zurich market rate of the Czech currency, since hard currency is badly needed for the purchase of raw materials abroad. This report was supported in the Czechoslovak Cabinet by Dr. Jaromir Dolansky, Minister of State Planning, who was advised in that matter by Dr. Ludvik Frejka (alias Ludwig Freund), Chief Economic Advisor to President Klement Gottwald. The report was criticized as impracticable by Viliam Siroky, Minister of Foreign Affairs [redacted] 50X1-HUM

2. Another proposal, made by Dr. Zdenek Gregor, Minister of Foreign Trade, suggesting an increase in production of goods suitable for export to dollar countries, was strongly opposed by Rudolf Slansky, Deputy Prime Minister in charge of economic matters. Because of the impossibility in these circumstances of coming to any agreement, Prime Minister Antonin Zapotocky's proposal for postponement of all negotiations about a currency reform was finally accepted. Supported by Karel Bacilek, Minister of State Control, Zapotocky gave the following reasons for his proposal:

   a. The present drive by the Czechoslovak Government for an increase in production does not allow any currency reform before the results of the program are known.

   b. Later, if a currency reform proves to be inevitable, a new general adjustment of wages must be established prior to that reform.

   c. If financial difficulties increase because of the postponement of the currency reform, the first measure to be taken before any hasty solutions are attempted is the abolition of the free market in Czechoslovakia.

3. Zapotocky was instructed by the government to inquire further into the possible consequences on the morale of the working class of such unpopular measures as the abolition of the free market, even if preceded by a general adjustment of wages. On these matters, he is to negotiate with the following representatives

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of Ustredni Rada Odboro (URO), the state labor organization: Frantisek Zupka, Josef Smidmajer, Josef Kolsky and Vaclav Cipro. He will be assisted in these negotiations by Gustav Kliment, Minister of Heavy Industry and member of the Central Committee of the URO. Dr. Josef Krasny, Chief of the Political Department of the Prime Minister's office, was instructed to make regular reports about the progress of these negotiations to P.G. Krekoten, the Soviet Charge d'Affaires in Prague.

[redacted] Comment: It can be safely assumed that no decision about the currency reform will be taken by the Czechoslovak Government before the session of the International Economic Conference, scheduled to be held in Moscow on April 3-10, 1952, to which the Kremlin is attaching great importance. 50X1-HUM